

Rubin & Hays

ATTORNEYS AT LAW

Kentucky Home Trust Building, 450 South Third Street, Louisville, Kentucky 40202-1410
Telephone (502) 569-7525 Telefax (502) 569-7555 www.rubinhays.com

CHARLES S. MUSSON
W. RANDALL JONES
CHRISTIAN L. JUCKETT

RECEIVED

June 9, 2015

JUN 12 2015

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602

Re: Southern Water and Sewer District PSC Application - KRS 278.023

Dear Mr. Derouen:

Enclosed please find the original and ten (10) copies of the Application of the Southern Water and Sewer District for a Certificate of Public Convenience and Necessity to construct, finance and increase rates pursuant to KRS 278.023.


Also enclosed are eleven (11) copies of the exhibits required pursuant to 807 KAR 5.069, with the **exception of the Preliminary and Final Engineering Reports, of which two copies are enclosed.**

The Engineers on this Project will file the electronic copy of the Plans and Specifications in the near future.

If you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By 
W. Randall Jones

WRJ:jlm
Enclosures
cc: Distribution List

DISTRIBUTION LIST

**Re: Southern Water and Sewer District Waterworks Revenue Bonds, Series 2015,
in the principal amount of \$1,773,000**

Mr. Thomas G. Fern
State Director
USDA, Rural Development
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503-5477

Telephone: (859) 224-7336
Fax: (859) 224-7425

Mr. Douglas Hoff
USDA, Rural Development
220 West First Street
Morehead, Kentucky 40351

Telephone: (606) 784-6447
Fax: (606) 784-2076

Mr. Dean Hall
Southern Water and Sewer District
P.O. Box 610
McDowell, Kentucky 41647

Telephone: (606) 377-9296
Fax: (606) 377-9286

Matt Curtis, P.E.
Kentucky Engineering Group, PLLC
P.O. Box 1034
Versailles, Kentucky 40383

Telephone: (859) 251-4127
Fax: (859) 251-4137

Ralph H. Stevens, Esq.
Attorney at Law
P.O. Box 466
Prestonsburg, Kentucky 41653

Telephone: (606) 886-1000
Fax: (606) 886-0800

W. Randall Jones, Esq.
Rubin & Hays
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Telephone: (502) 569-7534
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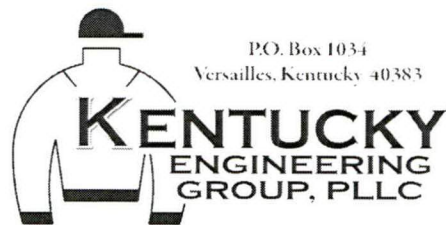
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JUN 12 2015

PUBLIC SERVICE
COMMISSION

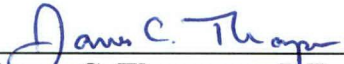
**Final Engineering Report
Southern Water & Sewer District
Water System Improvements
May 2015**

prepared by:



859.251-4127

Submitted By:


James C. Thompson, P.E.
Project Engineer



SOUTHERN WATER AND SEWER DISTRICT FINAL ENGINEERING REPORT WATER SYSTEM IMPROVEMENTS

PROJECT PLANNING AREA AND PROJECT DESCRIPTION

The Southern Water & Sewer District is located in Floyd County, Kentucky. The District serves the southern part of Floyd County from Route 23 south. The District also serves a small number of customers in Knott County and sells water wholesale to the City of Hindman. A map of the District's service area is located at the end of this report. The major land attributes are high mountains with narrow hollows prone to flooding.

The proposed project is the replacement of the main transmission water main from the water treatment plant in Allen, KY to Martin, KY. The entire main has experienced extremely high amount of line breaks causing the entire distribution system integrity being compromised, as this line is the main transmission main from the plant to the Martin Storage Tank. These breaks result in water outages and boil water advisories.

A second segment of this project is improvements and upgrades to the water treatment plant at Allen, KY. These improvements and upgrades are necessary due to deteriorated equipment. Corrosion due to chlorine vapor exposure has resulted in equipment failure and excessive corrosion. Kentucky Division of Water had requested that improvements be made to the existing equipment and upgrading of other equipment to help the district meet current regulations.

EXISTING FACILITIES

The Beaver Elkhorn and Mud Creek systems were originally built in the late 1960's and early 1970's with EDA funds. In 1987 the Mud Creek system received FmHA funds to replace the meters, replace service lines, replace a tank and repair two lift stations. The Beaver Elkhorn system has a water plant, which was expanded from 1 to 2 mgd in 1992. The system has several new tanks and pumps added to the system in 1992 along with a line extension from Hi Hat to Weeksbury. The system has also had AML funded line extensions in Bill Hall Branch in 1999 and Arkansas Creek in 1997. The systems were merged in early 2000 to form the Southern Water & Sewer District. After the merger numerous projects were completed which added approximately 3,000 customers to the system and 11 new storage tanks and 14 new pump stations.

NEED FOR THE PROJECT

Replacing the main transmission water main will increase the reliability of delivery of water from the WTP to the Martin Storage Tank where it is split in many directions and enters the distribution system. By reducing the amount of man power necessary to locate leaks along the transmission main and making the necessary repairs.

The improvements and upgrades at the water treatment plant will allow the District to more efficient operate its plant and reduce the possibility that there will be minimally or un-treated water leaving the plant due to equipment failure.

ALTERNATIVES CONSIDERED

Alternatives considered for the transmission main replacement was to construct the water main in phases, completing the full scope of transmission main, various sizes of water main for future expansion (18-inch, 16-inch or 12-inch) and utilizing a trenchless technology to line the existing water main.

Phasing of improvements at the treatment plant was also considered.

PROPOSED PROJECT

The proposed project includes the construction of approximately 14,000 linear feet of 12 inch water main and various system components (gate valves, hydrants, service re-connections, master meter).

Also included in this project are a number of improvements at the water treatment plant to improve operation efficiencies.

PROJECT BUDGET AND FINANCING

The water main portion of the project was bid on March 23, 2015. A portion of the water treatment plant improvements were completed over the past 18 months. These improvements were undertaken ahead of the line work because of a Notice of Violation from the Kentucky Division of Water about deficiencies at the water treatment plant. The water treatment plant work was financed through Kentucky Rural Water Finance Corporation.

The balance of the work at the water treatment plant will be bid later this year. It is important to get the water transmission main replacement project under construction during the summer months of the year due it being constructed within Kentucky Transportation Cabinet Right-of-Way.

The low bidder for the line work is Boca Enterprises of Hager Hill, KY. Boca's low bid was \$1,169,777.03. This is below the engineer's estimate and leaves sufficient funds for the water treatment plant improvements.

The funding for the project is entirely from Rural Development. The RD loan amount is \$1,773,000 and the grant amount is \$1,417,000.

The project budget is:

Description	Total
WTP Work - Reimbursement (KRWFC)	\$ 350,000.00
Emergency Repairs - Reimbursement	\$ 85,000.00
Total Reimbursement	
Water Main Replacement - Construction	\$1,169,777.03
Water Main Replacement - Engineering	\$ 259,221.91
Water Main Replacement - Contingency	\$116,977.06
Water Main Replacement - Legal	\$22,000.00
Water Main Replacement - Interest	\$140,000.00
Total - Water Main Replacement	\$ 1,707,976.00
Additional WTP/WM	\$ 1,047,780.51
Total Project Cost	\$ 3,190,000.00

Based upon the Letter of Conditions dated September 12, 2014 from USDA Rural Development required a rate increase to cover the additional debt service. The proposed rates are:

First 2,000 gallons @ \$24.60 - Minimum Bill
 All Over 2,000 gallons @ \$8.40 - per 1,000 gallons

These rates will be submitted to the KY Public Service Commission for approval.



BID TABULATION

Southern Water & Sewer District, Kentucky
 Allen to Martin Water Transmission Main
 Monday, March 23, 2015

Item No.	Description	Quantity	Unit	BOCA Enterprises Hager Hill, Kentucky		G & W Construction Co., Inc. Morehead, Kentucky		Flo-Line Contracting Monticello, Kentucky		Average Unit Cost	Average Bid Amount
				\$/unit	Bid Amount	\$/unit	Bid Amount	\$/unit	Bid Amount		
1	TIE INTO EXISTING WATER MAIN	10	EA	\$ 6,509.00	\$ 65,090.00	\$ 5,351.85	\$ 53,518.50	\$ 2,000.00	\$ 20,000.00	\$ 4,620.28	\$ 46,202.83
2	NEW 12" CL. 350 DJ. WATER MAIN	14,000	LF	\$ 41.80	\$ 585,200.00	\$ 45.39	\$ 635,460.00	\$ 47.25	\$ 661,500.00	\$ 44.81	\$ 627,386.67
3	NEW 6" DR-18 PVC C900 WATER MAIN	100	LF	\$ 18.94	\$ 1,894.00	\$ 14.54	\$ 1,454.00	\$ 27.00	\$ 2,700.00	\$ 20.16	\$ 2,016.00
4	NEW 4" DR-18 PVC C900 WATER MAIN	100	LF	\$ 16.26	\$ 1,626.00	\$ 12.52	\$ 1,252.00	\$ 23.00	\$ 2,300.00	\$ 17.26	\$ 1,726.00
5	NEW 3" SDR-17 PVC WATER MAIN	1,000	LF	\$ 9.24	\$ 9,240.00	\$ 9.55	\$ 9,550.00	\$ 20.00	\$ 20,000.00	\$ 12.93	\$ 12,930.00
6	NEW 2" SDR-17 PVC WATER MAIN	100	LF	\$ 9.83	\$ 983.00	\$ 8.98	\$ 898.00	\$ 20.00	\$ 2,000.00	\$ 12.94	\$ 1,293.67
7	12" DR-9 HDPE WATER MAIN (TEMPORARY)	6,500	LF	\$ 33.17	\$ 215,605.00	\$ 38.74	\$ 251,810.00	\$ 48.50	\$ 315,250.00	\$ 40.14	\$ 260,888.33
8	NEW 12" GATE VALVE & BOX	15	EA	\$ 2,065.00	\$ 30,975.00	\$ 3,070.34	\$ 46,055.10	\$ 2,500.00	\$ 37,500.00	\$ 2,545.11	\$ 38,176.70
9	NEW 6" GATE VALVE & BOX	2	EA	\$ 800.55	\$ 1,601.10	\$ 1,069.26	\$ 2,138.52	\$ 900.00	\$ 1,800.00	\$ 923.27	\$ 1,846.54
10	NEW 4" GATE VALVE & BOX	1	EA	\$ 672.23	\$ 672.23	\$ 836.86	\$ 836.86	\$ 800.00	\$ 800.00	\$ 769.70	\$ 769.70
11	NEW 3" GATE VALVE & BOX	1	EA	\$ 620.58	\$ 620.58	\$ 733.58	\$ 733.58	\$ 750.00	\$ 750.00	\$ 701.39	\$ 701.39
12	NEW 2" GATE VALVE & BOX	1	EA	\$ 459.16	\$ 459.16	\$ 627.89	\$ 627.89	\$ 600.00	\$ 600.00	\$ 562.35	\$ 562.35
13	NEW CUSTOMER METERS - SAME SIDE	26	EA	\$ 998.36	\$ 25,997.36	\$ 851.67	\$ 22,143.42	\$ 1,300.00	\$ 33,800.00	\$ 1,046.68	\$ 27,213.59
14	NEW CUSTOMER METERS - OPPOSITE SIDE	38	EA	\$ 1,317.75	\$ 50,074.50	\$ 1,050.64	\$ 39,924.32	\$ 2,100.00	\$ 79,800.00	\$ 1,489.46	\$ 56,599.61
15	ADDITIONAL SERVICE TUBING	1,600	LF	\$ 2.76	\$ 4,416.00	\$ 8.40	\$ 13,440.00	\$ 5.00	\$ 8,000.00	\$ 5.39	\$ 8,618.67
16	ROAD CROSSING - STEEL CASING, BORE & JACK	130	LF	\$ 246.85	\$ 32,090.50	\$ 210.54	\$ 27,370.20	\$ 250.00	\$ 32,500.00	\$ 235.80	\$ 30,653.57
17	FLUSHING HYDRANT ASSEMBLY	5	EA	\$ 3,980.00	\$ 19,900.00	\$ 3,674.72	\$ 18,373.60	\$ 4,000.00	\$ 20,000.00	\$ 3,884.91	\$ 19,424.53
18	BLOWOFF HYDRANT ASSEMBLY	2	EA	\$ 2,234.85	\$ 4,469.70	\$ 2,686.75	\$ 5,373.50	\$ 1,900.00	\$ 3,800.00	\$ 2,273.87	\$ 4,547.73
19	CUT & CAP EXISTING WATER MAIN	5	EA	\$ 2,610.00	\$ 13,050.00	\$ 1,611.36	\$ 8,056.80	\$ 1,500.00	\$ 7,500.00	\$ 1,907.12	\$ 9,535.60
20	CREEK CROSSING, DIRECTIONALLY DRILLED	700	LF	\$ 131.10	\$ 91,770.00	\$ 152.21	\$ 106,547.00	\$ 110.00	\$ 77,000.00	\$ 131.10	\$ 91,772.33
21	10" MASTER METER & VAULT	1	EA	\$ 14,342.90	\$ 14,342.90	\$ 43,434.70	\$ 43,434.70	\$ 15,000.00	\$ 15,000.00	\$ 24,259.20	\$ 24,259.20

TOTAL BID CALCULATED BID AMOUNT \$ 1,169,777.03 \$ 1,288,997.99 \$ 1,342,600.00 \$ 1,267,125.01

I certify that this is true and accurate tabulation of the bids.

The above is a true and complete tabulation of the bids received at 2:00 p.m. local time, Monday, March 23, 2015 at the District's Office, McDowell, Kentucky.

KENTUCKY ENGINEERING GROUP, PLLC

*Numbers in red indicate errors in contractor's calculations

By: *James C. Thompson*
 James C. Thompson, PE

RECEIVED

JUN 12 2015

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE SOUTHERN WATER)
AND SEWER DISTRICT FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND) Case No. 2015-_____
NECESSITY TO CONSTRUCT, FINANCE AND)
INCREASE RATES PURSUANT TO KRS 278.023)

APPLICATION

This Application of the Southern Water and Sewer District ("Applicant"), respectfully shows:

1. That Applicant is a water district created and existing under and by virtue of Chapter 74 of the Kentucky Revised Statutes.

2. That the post office address of Applicant is:

Southern Water and Sewer District
c/o Ms. Maribeth Webb, Office Manager
P.O. Box 610
McDowell, Kentucky 41647
Phone: (606) 377-9296
Fax: (606) 377-9286
email address: mckinneym@bellsouth.net

3. That Applicant, pursuant to the provisions of KRS 278.023, seeks (i) a Certificate of Public Convenience and Necessity, permitting Applicant to construct a waterworks improvement project (the "Project"); (ii) an Order approving increased water rates; and (iii) approval of the proposed plan of financing said Project.

4. That the Project consists of the replacement of the main transmission water main and appurtenances from the water treatment plant in Allen, Kentucky to Martin, Kentucky. A second segment of this project involves the construction of improvements and upgrades to the water treatment plant in Allen, Kentucky (see letter of explanation from Kentucky Engineering Group to USDA, Rural Development ("RD") attached hereto as **Exhibit "A"**).

5. That Applicant proposes to finance the construction of the Project through (i) the issuance of \$1,773,000 of its Waterworks Revenue Bonds; and (ii) an RD grant in the amount of \$1,417,000. Applicant has a commitment from RD to purchase said \$1,773,000 of bonds maturing over a 40-year period, at an interest rate not to exceed 3.25% per annum as set out in the RD Letter of Conditions filed herewith as an Exhibit.

6. That Applicant does not contemplate having the Project constructed with any deviation from minimum construction standards of this Commission.

7. That Applicant files herewith the following Exhibits pursuant to 807 KAR 5:069, Section 2 in support of this Application:

- A. Copy of RD Letter of Conditions (**Exhibit "B"**).
- B. Copy of RD Letter of Concurrence in Contract Award (**Exhibit "C"**).
- C. Copy of Preliminary Engineering Report, Final Engineering Report and certified bid tabulations.
- D. Certified statement from the Chairperson of Applicant (**Exhibit "D"**), based upon statements of the Engineers for Applicant, concerning the following:
 - (1) The proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
 - (2) All other state approvals or permits have been obtained;
 - (3) The proposed rates of Applicant shall produce the total revenue requirements recommended in the engineering reports; and
 - (4) Setting out the estimated dates when construction will begin and end.

8. That Applicant has complied with the "public postings" requirement of 807 KAR 5:069, Section 3(1)(a) and (b) by posting a copy of the Notice of Proposed Rate Change (the "Notice") at its place of business (Applicant does not maintain a website). Applicant has also arranged for the publication, prior to or at the same time this Application is filed, of the Notice pursuant to 807 KAR 5:069, Section 3(2) in the newspaper of general circulation in Applicant's service area. Said Notice sets out the content requirements of 807 KAR 5:069, Section 3(4). A copy of said Notice is filed herewith as **Exhibit "E"**. Applicant shall file with this Commission no later than fifteen (15) days from the date this Application was initially filed, an affidavit and tearsheet from the publisher as required by 807 KAR 5:069 Section 3(3)(b).

9. That the foregoing constitutes the documents necessary to obtain the approval of this Commission in accordance with Section 278.023 of the Kentucky Revised Statutes and in accordance with the "Filing Requirements" specified in 807 KAR 5:069, Section 2.

WHEREFORE, Applicant, the Southern Water and Sewer District asks that the Public Service Commission of the Commonwealth of Kentucky grant to Applicant the following:

- a. A Certificate of Public Convenience and Necessity permitting Applicant to construct a water system improvement project.
- b. An Order approving the financing arrangements made by Applicant, viz., (i) the issuance of \$1,773,000 of Southern Water and Sewer District Waterworks Revenue Bonds at an interest rate not to exceed 3.25% per annum; and (ii) an RD grant in the amount of \$1,417,000.
- c. An Order approving the proposed water rates as set out in Section 27 of the RD Letter of Conditions filed herewith as an Exhibit.

Southern Water and Sewer District


By: 
Chairperson
Board of Water Commissioners


W. Randall Jones, Esq.
Rubin & Hays
Counsel for Applicant
Kentucky Home Trust Building
450 South Third Street
Louisville, Kentucky 40202
Phone: (502) 569-7525
Fax: (502) 569-7555
wrjones@rubinhays.com

COMMONWEALTH OF KENTUCKY)
) SS:
 COUNTY OF FLOYD)

The undersigned, Paula Johnson, being duly sworn, deposes and states that she is the Chairperson of the Board of Commissioners of the Southern Water and Sewer District, Applicant, in the above proceedings; that she has read the foregoing Application and has noted the contents thereof; that the same is true of her own knowledge, except as to matters which are therein stated on information or belief, and as to those matters, she believes same to be true.


IN TESTIMONY WHEREOF, witness the signature of the undersigned on this May 26, 2015.



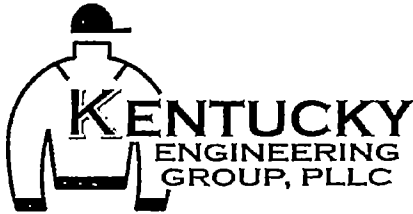
 Paula Johnson, Chairperson
 Southern Water and Sewer District

Subscribed and sworn to before me by Paula Johnson, Chairperson of the Board of Commissioners of the Southern Water and Sewer District, on this May 26, 2015.

My Commission expires: 5-15-18.



 Notary Public



May 21, 2015

Mr. Vernon Brown, Communities Program Chief
USDA Rural Development, State Office
771 Corporate Drive, Suite 200
Lexington, Kentucky 40503

RE: Southern Water and Sewer District – Allen to Martin Water Transmission Main

Dear Mr. Brown,

As you are aware, this project has been on the books since around 2011. The original intent of this project was to reduce water loss along the transmission main corridor by installing a new water main from the WTP in Allen to the distribution mains in Martin and make needed improvements at the WTP. As the checklist was being completed improvements were made at the WTP due to Kentucky Division of Water, as well as emergency repairs caused by flooding. Prior to bidding it was determined that only a portion of the project would be bid to ensure that construction bids would be within the budgeted amounts and the remainder of the project would be completed with the remaining funds, as they were available.

The District decided that they would bid the water transmission main portion first to establish a budget for the remaining items of improvements at the WTP. SWSD also had concerns with existing bidding climate and pricing that has recently changed at a very rapid pace. Once the water transmission main project has reached a point where all parties are comfortable with final contract amount of the water transmission main.

Prior to the bidding of the water transmission main SWSD had improvements that warranted immediate repairs, the first being the findings from their 2012 Drinking Water Sanitary Sewer Survey, which was bid in March of 2013. This project addressed the following items: new filter media, new filter nozzles, cleaning of filter boxes, miscellaneous valve & actuator replacement, carbon feed system, miscellaneous instrumentation replacement (pressure transmitters, level transducers, etc.), new venturi meter replacement, backwash pump replacement and new turbidimeters.

The district has also had two emergency repairs that have been made to keep the distribution/WTP with continued service. The district had to replace the raw water pumps and replace a creek crossing that feeds their main water tank in Martin. These costs are approximately \$85,000.

P.O. Box 1034
Versailles, Kentucky 40383
Phone: (859) 251.4127
Fax: (859) 251.4137
Email: info@kyengr.com
www.kyengr.com

The Water Transmission Main Project was bid on March 23, 2015 and the low bidder was BOCA Enterprises of Hager Hill, Kentucky. The base bid amount was for \$1,169,777.03 well within the budgeted amount. The bid also included an Additive Alternate of \$686,201.18 to continue replacing the water transmission main near KY 80 east of Martin, Kentucky. It is the district's intention to change order in the additional work as construction has reached a significant percent complete. This change order will replace the entire transmission main near the intersection of KY 80 and River Bottom Road.

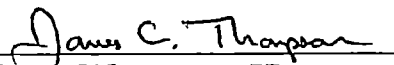
When all of these various items are combined, the following budget is established:

Description	Cost
Reimbursement - WTP & Emergency Repairs	\$ 435,000.00
Water Main Replacement - Construction (Bid)	\$ 1,169,777.03
Water Main Replacement - Engineering (Bid)	\$ 259,221.91
Water Main Replacement - Contingency (Bid)	\$116,977.06
Water Main Replacement - Legal (Bid)	\$22,000.00
Water Main Replacement - Interest (Bid)	\$40,000.00
Total - Committed	\$2,042,976.00
Water Main Replacement - Construction (AA#1)	\$ 686,201.18
Water Main Replacement - Engineering (AA#1)	\$ 52,099.82
Water Main Replacement - Contingency (AA#1)	\$ 68,620.12
Total - Additive Alternate #1	\$806,921.12
WTP Improvements - Construction	\$ 265,651.26
WTP Improvements - Contingency	\$ 26,565.13
WTP Improvements - Engineering	\$ 47,886.49
Total - WTP Improvements	\$340,102.88
Total - Funding Available	\$3,190,000.00

If you have any questions feel free to give me a call at (859) 251-4127.

Sincerely,

KENTUCKY ENGINEERING GROUP, PLLC



James C Thompson, PE
Project Manager

pc: Dean Hall - Southern Water & Sewer District
Douglas Hoff - USDA Rural Development, Morehead
File



Rural Development

September 12, 2014

Kentucky State Office

771 Corporate Drive,
Suite 200
Lexington, KY
40503

Paula Johnson, Chairperson
Southern Water & Sewer District
PO Box 610
McDowell, Kentucky 41647

Voice 859.224.7300
Fax 859.224.7425
TTY 859.224.7422

Dear Chairperson Johnson:

This letter establishes conditions which must be understood and agreed to by you before further consideration may be given to the application. The loan and grant will be administered on behalf of the Rural Utilities Service (RUS) by the State and Area office staff of USDA Rural Development. Any changes in project cost, source of funds, scope of services or any other significant changes in the project or applicant must be reported to and approved by USDA Rural Development, by written amendment to this letter. Any changes not approved by Rural Development shall be cause for discontinuing processing of the application. It should also be understood that Rural Development is under no obligation to provide additional funds to meet an overrun in construction costs.

This letter is not to be considered as loan and grant approval or as a representation as to the availability of funds. The docket may be completed on the basis of a RUS loan not to exceed \$1,773,000 and a RUS grant not to exceed \$1,417,000.

If Rural Development makes the loan, the interest rate will be the lower of the rate in effect at the time of loan approval or the rate in effect at the time of loan closing, unless the applicant otherwise chooses. The loan will be considered approved on the date a signed copy of Form RD 1940-1, "Request for Obligation of Funds," is mailed to you.

Please complete and return the attached Form RD 1942-46, "Letter of Intent to Meet Conditions," if you desire that further consideration be given to your application.

The "Letter of Intent to Meet Conditions" must be executed within three weeks from the date of this letter or it becomes invalid unless a time extension is granted by Rural Development.

If the conditions set forth in this letter are not met within 210 days from the date hereof, Rural Development reserves the right to discontinue the processing of the application.

In signing Form RD 1942-46, "Letter of Intent to Meet Conditions," you are agreeing to complete the following as expeditiously as possible:

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (888) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

1. Number of Users and Their Contribution:

There shall be 6,983 water users (6,875 residential, 107 non-residential and 1 wholesale). The Area Director will review and authenticate the number of users prior to advertising for construction bids.

2. Grant Agreement:

Attached is a copy of RUS Bulletin 1780-12, "Water and Waste System Grant Agreement," for your review. You will be required to execute a completed form at the time of grant closing.

3. Drug-Free Work Place:

Prior to grant closing, the District will be required to execute Form AD-1049, "Certification Regarding Drug-Free Workplace Requirements (Grants) Alternative I - For Grantees Other Than Individuals."

4. Repayment Period:

The loan will be scheduled for repayment over a period not to exceed 40 years from the date of the Bond. Principal payment will not be deferred for a period in excess of one year from the date of the Bond. Payments will be in accordance with applicable KRS, which requires interest to be paid semi-annually (January 1st and July 1st) and principal will be due on or before the first of January. Rural Development may require the District to adopt a supplemental payment agreement providing for monthly payments of principal and interest so long as the bond is held or insured by RUS. Monthly payments will be approximate amortized installments.

5. Recommended Repayment Method:

Payments on this loan shall be made using the Preauthorized Debit (PAD) payment method. This procedure eliminates the need for paper checks and ensures timely receipt of RD loan payments. To initiate PAD payments, Form RD 3550-28, "Authorization Agreement for Preauthorized Payments," should be signed by the District to authorize the electronic withdrawal of funds from your designated bank account on the exact installment payment due date. The Area Director will furnish the necessary forms and further guidance on the PAD procedure.

6. Reserve Accounts:

Reserves must be properly budgeted to maintain the financial viability of any operation. Reserves are important to fund unanticipated emergency maintenance, pay for repairs, and assist with debt service should the need arise.

The District will be required to deposit \$675 per month into a "Funded Debt Reserve Account" until the account reaches \$81,000. The deposits are to be resumed any time the account falls below the \$81,000.

The required monthly deposits to the Reserve Account and required Reserve Account levels are in addition to the requirements of the District's prior bond resolutions.

The monthly deposits to the Reserve Account are required to commence with the first month of the first full fiscal year after the facility becomes operational.

The District also needs to fund an account for short-lived assets by depositing a sum of \$1,917 monthly into the account. The funds in the short-lived asset account may be used by the District as needed to replace or add short-lived assets in the District's water system. This short-lived asset reserve amount replaces any previous short-lived assets requirements previously set with any prior RUS loan.

7. Security Requirements:

A pledge of gross water will be provided in the Bond Resolution. Bonds shall rank on a parity with existing bonds, if possible.

If this is not possible, the bond will be subordinate and junior to the existing bonds, in which case the District will be required to abrogate its right to issue additional bonds ranking on a parity with the existing bonds, so long as any unpaid indebtedness remains on this bond issue.

8. Land Rights and Real Property:

The District will be required to furnish satisfactory title, easements, etc., necessary to install, maintain and operate the facility to serve the intended users. The pipelines will be on private rights-of-way where feasible. Easements and options are to be secured prior to advertising for construction bids.

9. Organization:

The District will be legally organized under applicable KRS which will permit them to perform this service, borrow and repay money.

The District must maintain a current registration of their DUN and Bradstreet Data Universal Numbering System (DUNS) number in SAM.gov (System for Award Management) in order to receive federal loan and/or grant financial assistance. This registration must be updated/renewed at least annually.

10. Business Operations:

The District will be required to operate the system under a well-established set of resolutions, rules and regulations. A budget must be established annually and adopted by the District after review by Rural Development. At no later than loan pre-closing, the District will be required to furnish a prior approved management plan to include, as a minimum, provisions for management, maintenance, meter reading, miscellaneous services, billing, collecting, delayed payment penalties, disconnect/reconnect fees, bookkeeping, making and delivering required reports and audits.

11. Accounts, Records and Audits:

The District will be required to maintain adequate records and accounts and submit annual budgets and year-end reports (annual audits)*statistical and financial reports, quarterly and annually, in accordance with subsection 1780.47 of RUS Instruction 1780.

The District will be required to establish and maintain separate accounts for each system. Annual audits, budgets, and reports will be submitted to Rural Development showing separate accounts.

12. Accomplish Audits for Years in Which Federal Financial Assistance is Received:

The District will accomplish audits in accordance with OMB Circular A-133, during the years in which federal funds are received. The District will provide copies of the audits to the Area Office and the appropriate Federal cognizant agency as designated by OMB Circular A-133.

13. Insurance and Bonding:

The following insurance and bonding will be required:

- A. Adequate Liability and Property Damage Insurance including vehicular coverage, if applicable, must be obtained and maintained by the District. The District should obtain amounts of coverage as recommended by its attorney, consulting engineer and/or insurance provider.
- B. Worker's Compensation - The District will carry worker's compensation insurance for employees in accordance with applicable state laws.
- C. Fidelity Bond - The District will provide Fidelity Bond Coverage for all persons who have access to funds. Coverage may be provided either for all individual positions or persons, or through "blanket" coverage providing protection for all appropriate employees and/or officials. The amount of coverage required for all RUS loans is \$293,000.
- D. Real Property Insurance - The District will obtain and maintain adequate fire and extended coverage on all structures including major items of equipment or machinery located in the structures. The amounts of coverage should be based on recommendations obtained by the District from its attorney, consulting engineer and/or insurance provider. Subsurface lift stations do not have to be covered except for the value of electrical and pumping equipment therein.
- E. Flood Insurance - The District will obtain and maintain adequate coverage on any facilities located in a special flood and mudslide prone areas.

14. Planning and Performing Development:

- A. The engineer should not be authorized to commence work on final plans and specifications until a determination has been made that the project can be planned and constructed within the estimated cost shown in paragraph

"24" of this letter. The engineer may then proceed to develop final plans and specifications to be completed no later than 180 days from this date, and prepare bid documents. The Area Director is prepared to furnish the necessary guide to follow so as to keep the project plans and documents within our guidelines and requirements. The project should not be advertised for construction bids until all easements and enforceable options have been obtained, and total funds are committed or available for the project.

- B. The following documents will be submitted to Rural Development for review and must be concurred in by Rural Development prior to advertisement for construction bids:
1. Final plans, specifications and bid documents.
 2. Applicant's letter on efforts to encourage small business and minority-owned business participation.
 3. Legal Service Agreements.
 4. Engineering Agreements.

Revision in these documents will be subject to Rural Development concurrence. Any agreements, contracts, etc. not reviewed and approved by Rural Development will not be eligible for payment from project funds or revenues from facilities financed by this Agency.

Prior to receipt of an authorization to advertise for construction bids, the District will obtain advance clearance from Bond Counsel regarding compliance with KRS 424 pertaining to publishing of the advertisement for construction bids in local newspapers and the period of time the notice is required to be published.

15. Civil Rights & Equal Opportunity:

You should be aware of and will be required to comply with other federal statute requirements including but not limited to:

A. Section 504 of the Rehabilitation Act of 1973:

Under Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794), no handicapped individual in the United States shall, solely by reason of their handicap, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving Rural Development financial assistance.

B. Civil Rights Act of 1964:

All borrowers are subject to, and facilities must be operated in accordance with, Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d et seq.) and Subpart E of Part 1901 of this Title, particularly as it relates to conducting and reporting of compliance reviews. Instruments of conveyance for loans and/or grants subject to the Act must contain the covenant required by paragraph 1901.202(e) of this Title.

C. The Americans with Disabilities Act (ADA) of 1990:

This Act (42 U.S.C. 12101 et seq.) prohibits discrimination on the basis of disability in employment, state and local government services, public transportation, public accommodations, facilities, and telecommunications. Title II of the Act applies to facilities operated by state and local public entities that provide services, programs, and activities. Title III of the Act applies to facilities owned, leased, or operated by private entities that accommodate the public.

D. Age Discrimination Act of 1975:

This Act (42 U.S.C. 6101 et seq.) provides that no person in the United States shall, on the basis of age, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance.

Rural Development financial programs must be extended without regard to race, color, religion, sex, national origin, marital status, age, or physical or mental handicap.

16. Closing Instructions:

The Office of General Counsel, our Regional Attorney, will be required to write closing instructions in connection with this loan. Conditions listed therein must be met by the District.

17. Compliance with Special Laws and Regulations:

The District will be required to conform to any and all state and local laws and regulations affecting this type project.

18. Treatment Plant and System Operator:

The District is reminded that the treatment plant and system operator must have an Operator's Certificate issued by the State.

19. Prior to Pre-Closing the Loan, the District Will Be Required to Adopt:

- A. Form RUS Bulletin 1780-27, "Loan Resolution (Public Bodies)."
- B. Form RD 400-1, "Equal Opportunity Agreement."
- C. Form RD 400-4, "Assurance Agreement."
- D. Form AD-1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters - Primary Covered Transaction."
- E. Form RD 1910-11, "Applicant Certification Federal Collection Policies for Consumer or Commercial Debts."

- F. RD Instruction 1940-Q, Exhibit A-1, "Certification for Contracts, Grants and Loans."
- G. RUS Bulletin 1780-22, "Eligibility Certification."

20. Refinancing and Graduation Requirements:

The District is reminded that if at any time it shall appear to the Government that the District is able to refinance the amount of the RUS indebtedness then outstanding, in whole or in part, by obtaining a loan from commercial sources at reasonable rates and terms, upon the request of the Government, the District will apply for and accept such loan in sufficient amount to repay the Government.

21. Commercial Interim Financing:

The District will be required to use commercial interim financing for the project during construction for the RUS loan portion of the financing, if available at reasonable rates and terms.

Before the loan is closed, the District will be required to provide Rural Development with statements from the contractor, engineer and attorneys that they have been paid to date in accordance with their contract or other agreements and, in the case of the contractor, that he has paid his suppliers and sub-contractors.

22. Disbursement of Project Funds:

A construction account for the purpose of disbursement of project funds (RUS) will be established by the District prior to start of construction. The position of officials entrusted with the receipt and disbursement of RUS project funds will be covered by a "Fidelity Bond," with USDA Rural Development as Co-Obligee, in the amount of construction funds on hand at any one time during the construction phase.

For each "construction account" as established, if the amount of RUS loan and grant funds plus any applicant contributions or funds from other sources to be deposited into the account are expected to exceed \$250,000 at any time, the financial institution will secure the amount in excess of \$250,000 by pledging collateral with the Federal Reserve Bank in an amount not less than the excess in accordance with 7 CFR, 1902.7(a).

During construction, the District shall disburse project funds in a manner consistent with subsection 1780.76 (e) of RUS Instruction 1780. Form RD 1924-18, "Partial Payment Estimate," or similar form approved by Rural Development, shall be used for the purpose of documenting periodic construction estimates, and shall be submitted to Rural Development for review and acceptance. Prior to disbursement of funds by the District, the Board of Directors shall review and approve each payment estimate. All bills and vouchers must be approved by Rural Development prior to payment by the District.

Form RD 440-11, "Estimate of Funds Needed for 30-Day Period Commencing _____," will be prepared by the District and submitted to Rural Development in order that a periodic advance of federal cash may be requested.

Borrowers receiving federal loan and/or grant funds by EFT will have funds directly deposited to a specified account at a financial institution with funds being available to the recipient on the date of payment. The borrower should complete Form SF-3881, "Electronic Funds Transfer Payment Enrollment Form," for each account where funds will be electronically received. The completed form(s) must be received by Rural Development at least thirty (30) days prior to the first advance of funds.

Monthly audits of the District's construction account records shall be made by Rural Development.

23. Disbursement of Grant Funds:

The RUS funds will be advanced as they are needed in the amount(s) necessary to cover the RUS proportionate share of obligations due and payable by the District. Grant funds, upon receipt, must be deposited in an interest bearing account in accordance with 7 CFR part 3016 (as applicable). Interest earned on grant funds in excess of \$100 (as applicable) per year will be submitted to RUS at least quarterly.

24. Cost of Facility:

Breakdown of Costs:

Development	\$ 2,620,800
Legal and Administrative	22,000
Engineering	267,000
Interest	40,000
Contingencies	<u>240,200</u>
TOTAL	\$ 3,190,000

Financing:

RUS Loan	\$ 1,773,000
RUS Grant	<u>1,417,000</u>
TOTAL	\$ 3,190,000

25. Use of Remaining Project Funds:

After providing for all authorized costs, any remaining project funds will be considered to be RUS grant funds and refunded in proportion to participation in the project. If the amount of unused project funds exceeds the grants, that part would be RUS loan funds.

26. Proposed Operating Budget:

You will be required to submit to Rural Development a copy of your proposed annual operating budget that supports the proposed loan repayment prior to this agency giving you written authorization to proceed with the bidding phase. The operating budget should be based on a typical year cash flow, subject to completion of this project in the first full year of operation. Form RD 442-7, "Operating Budget," or similar form may be utilized for this purpose.

27. Rates and Charges:

Rates and charges for facilities and services rendered by the District must be at least adequate to meet cost of maintaining, repairing and operating the water and sewer system and meeting required principal and interest payments and the required deposits to debt service and/or depreciation reserve.

Water rates will be at least:

First	2,000	gallons @ \$24.60	- Minimum Bill
All Over	2,000	gallons @ \$ 8.40	- per 1,000 gallons

Wholesale water rates will be in accordance with existing contracts and revisions thereto.

28. Compliance with the Bioterrorism Act:

Prior to pre-closing the loan, the District will provide a certification they have completed a Vulnerability Assessment (VA) and prepared an emergency response plan (ERP) as required by the Safe Drinking Water Act (SDWA).

29. Floodplain Construction:

The District will be required to pass and adopt a Resolution or amend its By-Laws whereby the District will deny any sewer service to any future customer wishing to build on or develop property located within a designated floodplain. If a customer or developer requests service for construction in a designated floodplain, the customer or developer must provide evidence and a justification for approval by the District and Rural Development officials that there are no other alternatives to construction or development within the designated floodplain. The community must be a participant in the National Flood Insurance Program (NFIP) and the customer or developer must obtain the required permits prior to the tap on restrictions being waived.

30. Division of Water (DOW) Health & Sanitary Certification:

The Median Household Income (MHI) for the District's service area qualifies this project for the poverty interest rate. A certification from the Division of Water stating this project will remove a health or sanitary problem will be required. This certification must be obtained prior to loan pre-closing.

31. Mitigation Measures:

- A. The project shall be in compliance with all requirements noted in the Governor's Office for Local Development letter dated April 8, 2014, from Ms. Lee Nalley.
- B. The design and construction shall be in compliance with the requirements of the U.S. Fish and Wildlife Service as requested by letter dated July 24, 2014, and signed by Virgil Lee Andrews, Jr., Field Supervisor.
- C. The line design and construction shall be accomplished in a way that will leave flood plains and farmland without effect after construction is complete.

The Army Corps of Engineers Nationwide Permit No. 12 applies to all floodplain and wetland utility line construction.

- D. Any excavation by Contractor that uncovers a historical or archaeological artifact shall be immediately reported to Owner and a representative of Agency. Construction shall be temporarily halted pending the notification process and further directions issued by Agency after consultation with the State Historic Preservation Officer (SHPO).
- E. The design and construction shall be in compliance with all local, state and federal environmental statutes, regulations and executive orders applicable to the project.
- F. Best Management Practices shall be incorporated into the project design, construction, and maintenance.

32.

Final Approval Conditions:

Final approval of this assistance will depend on your willingness, with the assistance of all your co-workers, to meet the conditions of this letter in an orderly and systematic manner. Then too, final approval will depend on funds being available.

If you desire to proceed with your application, the Area Director will allot a reasonable portion of time to provide guidance in application processing.


Sincerely,



THOMAS G. FERN
State Director

Enclosures

- cc: Area Director - Morehead, Kentucky
Big Sandy ADD - Prestonsburg, Kentucky
Rubin & Hays - Louisville, Kentucky
Ralph Stevens - Prestonsburg, Kentucky
KY Engineering Group - Versailles, Kentucky

CP:VCB:rl 
Southern Water & Sewer loc 9-12-14



United States Department of Agriculture

Rural Development May 29, 2015

Kentucky State Office

771 Corporate Drive,
Suite 200
Lexington, KY
40503

SUBJECT: Southern Water And Sewer
Waterline Extensions
Contract Award Concurrence

Voice 859.224.7300
Fax 859.224.7425
TTY 859.224.7422

TO: Area Office
London, Kentucky

Based on the bids received and the recommendation of the consulting engineer, Rural Development concurs in the award of subject contract to the low bidder, BOCA Enterprises, in the amount of \$1,169,777.03

If you have any questions, please contact Julie Anderson, State Engineer, at (859) 224-7348.



THOMAS G. FERN
State Director
Rural Development

cc: KEG
Versailles

Randy Jones

USDA is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-8992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20260-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

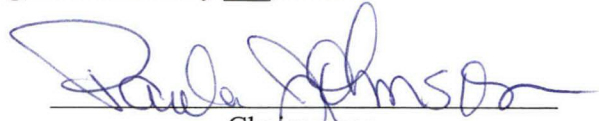
**CERTIFICATE OF CHAIRPERSON OF THE SOUTHERN WATER
AND SEWER DISTRICT AS TO STATEMENT REQUIRED BY
SECTION 2(6) OF 807 KAR 5:069**

I, the undersigned, hereby certify that I am the duly qualified and acting Chairperson of the Southern Water and Sewer District, and that said District is in the process of arranging to finance the construction of improvements to the water system (the "Project"), in cooperation with Kentucky Engineering Group, Versailles, Kentucky, the Engineers for the District (the "Engineers").

Based on information furnished to me by said Engineers, I hereby certify as follows:

1. That the proposed plans and specifications for the Project have been designed to meet the minimum construction and operating requirements set out in 807 KAR 5:066 Section 4(3) and (4); Section 5(1); Sections 6 and 7; Section 8(1) through (3); Section 9(1) and Section 10.
2. That all other state approvals and/or permits have been obtained.
3. That the rates proposed by the District in its current Application filed with the Kentucky Public Service Commission are contemplated to produce total revenue requirements recommended in the Engineering Reports prepared by such Engineers and filed with the Public Service Commission.
4. That it is now contemplated that construction of the Project will begin on or about July 15, 2015, and will end on or about January 15, 2016.

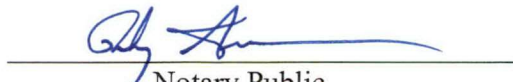
IN TESTIMONY WHEREOF, witness my signature this May 26, 2015.



Chairperson
Southern Water and Sewer District

STATE OF KENTUCKY)
) SS
COUNTY OF FLOYD)

Subscribed and sworn to before me by Paula Johnson, Chairperson of the Board of Commissioners of the Southern Water and Sewer District, on this May 26, 2015.



Notary Public
In and For Said State and County

NOTICE OF PROPOSED RATE CHANGE

In accordance with the requirements of the Kentucky Public Service Commission (“PSC”) as set out in 807 KAR 5:069, Section 3, notice is hereby given to the customers of the Southern Water and Sewer District (the “District”) of a change in water rates for users of the District’s water system. The changes in water rates are required by the U.S. Department of Agriculture, acting through Rural Development (“RD”) in connection with a loan by RD to the District in the principal amount of \$1,775,000 to be evidenced by the issuance by the District of its waterworks revenue bonds in such amount, which RD has agreed to purchase provided the District meets certain conditions of RD, including revising the water rates as set forth below:

Current Monthly Rates

<u>All Meters</u>		<u>Monthly Rate</u>
First	2,000 gallons	\$23.48 minimum bill
Over	2,000 gallons	8.13 per 1,000 gallons

Proposed Monthly Water Rates

<u>All Meters</u>		<u>New Monthly Rate</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
First	2,000 gallons	\$24.60 minimum bill	\$1.12	4.77%
Next	2,000 gallons	8.40 per 1,000 gallons	0.27	3.32

The proposed monthly water rates shall be effective for water sold after the date of the final approving Order of the PSC, which Order is expected to be issued no later than 30 days of the filing of the Application.

The amount of average usage for all customers in the calendar year 2012 was 3,313 gallons per month thus generating an average monthly billing based on current rates of \$34.15. The proposed monthly rates will increase the average monthly billing to \$35.63 for an impact of \$1.48 or 4.33%.

The Application for approval of the rate change has been filed with the PSC and may be examined during normal business hours at the following locations: (i) Southern Water and Sewer District office, 245 Kentucky Route 680, McDowell, Kentucky 41647; (ii) PSC, 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., E.T.; and (iii) via the PSC website at <http://psc.ky.gov>. Comments regarding the Application may be submitted to the PSC via its website or by mail to PSC, P.O. Box 615, Frankfort, Kentucky 40602.

The proposed rates are required under the terms of an agreement between the District and RD and KRS 278.023 does not grant the PSC any discretionary authority to modify or reject any portion of the agreement between the District and RD, or to defer the issuance of all necessary orders to implement the terms of the agreement.

The RD loan proceeds will be used in conjunction with a \$1,417,000 RD grant to finance the cost of the replacement of the main transmission water main and appurtenances from the water treatment plant in Allen, Kentucky to Martin, Kentucky. A second segment of this project involves the construction of improvements and upgrades to the water treatment plant in Allen, Kentucky. Signed, Paula Johnson, Chairperson, Southern Water and Sewer District.